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Today

A Review of 1987

Dear Reader: Happy New Year! Before you embark on the trials and triumphs of 1988, take a moment to review the major news events of the past year in today's center spread. **9**

NEWS MONDAY WEEKLY REVIEW

The Fed is facing a tough fight on its proposal to let bank holding companies acquire healthy thrifts. Though Fed Chairman Alan Greenspan has received some strongly worded mail, the outcome for the Sept. 21 proposal is unclear. **8**

Washington Briefing

Not surprisingly, the American Bankers Association and the Independent Bankers Association of America are taking starkly different positions on the issue of new bank powers. ____ **9**

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The uses of securitization by banks will expand into auto, consumer, commercial, and agricultural loans, a Commerce Department report forecasts. ____ **2**

The Bank Board combined five money-losing thrifts in Louisiana, creating a mega-institution with $1.8 billion in assets and about 50 in-state branches. The FSLIC will retain an equity stake in the new enterprise. ____ **3**

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American Banker
Job Bank

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Confidence Rises in US Banking System

But Public Won't Abandon Stock Market

By JAY ROSENSTEIN
Washington Bureau

WASHINGTON — Public confidence in the safety and security of the U.S. banking system appears to be at its highest level in recent years, according to a national opinion survey by the *American Banker*.

The poll's results indicate that the public is not linking the banking system to the problems on Wall Street resulting from the October stock market crash.

In a telephone survey of 1,000 consumers conducted between Nov. 10 and Dec. 16, 45% of the respondents said they have "a great deal" of confidence in the safety and security of the U.S. banking system. That is a dramatic increase from the previous survey conducted during May and June of 1987, when just 34% of the public expressed such confidence in the system.

The 45% figure also is the highest recorded in five consumer opinion surveys by this newspaper dating back to 1984. The previous high was 38% set in the spring of 1986.

The latest survey was conducted by Trans Data Corp., a Salisbury, Md., research affiliate of the *American Banker*.

The study was intended to gauge consumer attitudes toward saving and investment in the wake of the Oct. 19 crash. It also sought to determine whether the stock market crisis affected public confidence in the banking system and to discern consumer attitudes toward bank involvement in different fields, such as the securities business.

While confidence in the banking system is high, the survey shows that the public is not abandoning Wall Street, nor is it clamoring for banks to expand into the securities business.

Few Report Selling Stocks

The survey reports that only 6% of the 335 respondents who had money invested in Wall Street before October sold or redeemed shares after the crash. And 16 of that small group of 20 sellers, or 80%, said they plan to reinvest in stocks or stock mutual funds.

Similar to the spring *American Banker* survey, the latest poll shows no consensus as to whether banks should be involved in securities, real estate, and insurance sales.

"There is no groundswell of consumers saying, 'Wall Street's not doing a good job, let bankers handle this,' " said Mary Donadoni, a research associate with Trans Data Corp.

"It may be that confidence is placed in the banking industry doing what it does best, which is banking," she said. "It may be precisely because banks are not heavily involved in the securities business that consumers feel such a great deal of confidence at this time."

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Confidence Rising

Q: How much confidence do you personally have in the safety and security of the U.S. banking system today?

	May-June '86	May-June '87	Nov.-Dec. '87
A great deal	38%	34%	45%
Some	48	50	41
Very little/none	12	13	11
Unsure	2	3	4

Total exceeds 100% due to rounding
Source: American Banker surveys

Personal Plans

Q: In light of recent fluctuations in the stock market, do you feel that banks and thrifts are better or worse places to keep your money than before the stock market fall?

	Nov.-Dec. '87
Better now	24%
Worse now	10
Same	56
Unsure	10

Source: American Banker survey

Doubts About Bank Securities Activities

Q: Should banks be allowed to be involved in the securities business?

	Nov.-Dec. '87
Yes	39%
No	41
Unsure	20

Total exceeds 100% due to rounding
Source: American Banker surveys

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BANKING TRENDS

A Few Words to the Wise for Some Thrifts Eying Increased Size

By DR. PAUL S. NADLER

IF I WERE ASKED to give advice to a banker or thrift executive at the start of 1988, I would harken back to George Plimpton's advice to the Harvard seniors in his Class Day address of 1977:

"I have been led to understand that tomorrow you are going to graduate. Well, my strong recommendation is that you don't go. Stop. Go back to your rooms. Unpack. There is not much out here."

With regard to most thrifts and some banks too, my advice is similar: Don't grow. The problems all come when you try to get larger.

One can always understand why financial institutions like to grow. There is a fine ego advantage when you are bigger than the next bank or grow more rapidly than it does.

And the fact that all of us like to compare our size with that of other institutions is recognized in the excitement that growing banks and thrifts exhibit as they await the *American Banker's* periodic array of the top institutions by size.

Growth is not only a sign of achievement that is easy to display, but it also means in the minds of many that you are serving your community.

Nadler Says:

In the long run, the best decision that the management can make for the community, the employees, and the stockholders is to ensure the institution's survival. And this does not always mean growth.

But growth has other advantages. The larger you are, by tradition the higher the salaries you can pay. This is especially true for mutual organizations.

Growth is also important for morale. The faster you grow, the more opportunities people have to be promoted and given greater challenges. Conversely the job of keeping up morale in a static or declining organization is tremendous.

The Downside

But growth has its drawbacks.

Look at the banks in trouble with their Third World loans. Why were they out there in the first place? In many cases it was simply that a bank had no place left to grow at home, so it started an international department and established branches to show it was progressive.

And once you have people in a country, they must make loans to justify their salaries whether they feel in their hearts that there are real opportunities to make solid loans or not.

That happens domestically as well. The banks that left their home territory and decided to grow by invading the oil patch or otherwise diversifying where they didn't know the people or the territory are the ones that have had the most staggering problems.

For the thrifts in particular there is a real irony in the recent efforts at generating a growth environment by going public.

As thrifts tried to raise capital to back growth, they went the route of giving up their mutuality and selling stock.

Going public offered the added advantage of giving the board members, the officers, and the depositors a chance to "get rich quick" by offering shares that gave investors a piece of a capital position that in some instances had been slowly built up over more than a century.

Going public to finance growth looked like a cinch — for it was the only type of financing operation in which there was nobody on the other side. Both the underwriter and the buyers had a vested interest in keeping the conversion price low — the underwriter so the issue could go up rapidly and make him look good and the buyers so they could get a quick capital gain.

Normally the seller wants a high price. But in a mutual conversion, who is the seller? It is the mutual organization itself — but no actual individuals have a stake in ensuring the organization gets a good price for its stock. All are on the other side of keeping the price low.

So the mutuals that wanted to grow sold stock. Then Black Monday pushed many of these stocks well below the offering price. The result: The boards, the officers, and the public got burned. And the savers who had taken their money out of safe savings deposits found themselves with an investment worth less than what they paid for it, and they no longer received the regular interest returns they had formerly received.

How much better it would have been not to grow!

When More Means Less

Two other reasons show why growth is not so great for a financial institution today.

First, there is a question of what to do with the money once you have built up deposits. Loan demands are not that strong, so the lender must either sacrifice quality or yield to get more loans on the books.

Second, in many areas of the nation — notably New England and the Mid-Atlantic states, the people needed to staff the bank as it grows just are not available.

This columnist recently heard of sav-

Banking Trends: Page 5 ➡

Dr. Nadler is professor of finance at Rutgers University's Graduate School of Management and is contributing editor of the *American Banker*.

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OVERVIEW

The Lone Ranger Rides to the Rescue in Mexico

By H. ERICH HEINEMANN

THE U.S. Treasury and Morgan Bank came galloping through the pass just before the new year — pinstripes flapping in the breeze — to rescue the Mexican government from the fruits of its own folly.

The Treasury will sell some special zero coupon bonds to the Mexicans. In turn, the Mexicans will use the bonds as collateral to secure the principal (but not the interest) of bonds that Mexico will offer to swap for some of its outstanding debt.

The Morgan bankers will auction these bonds in exchange for Mexican loans that they and other bankers now hold at some fraction of face value. Poof! Part of Mexico's debt will disappear.

How much of the debt vanishes will depend on the bidding. Bankers will get a fairly good asset to replace a very bad one. The United States, which needs every dollar it can lay its hands on, will be able borrow at a favorable rate.

The Mexicans — who obviously have plenty of money to lend — will live happily ever after. The only details in doubt in this fascinating scenario are the character assignments. Is the Treasury to play the Lone Ranger and the Morgan Bank to play Tonto — or is it the other way around?

Sarcastic remarks aside, the financial engineers deserve full credit for a difficult job well done, having designed the elaborate scheme for Mexico (and potentially other heavily indebted nations) to swap outstanding loans for bonds partially backed by the U.S. Treasury. The complex shuffling of paper between the Mexican government, the Treasury, and the banks undoubtedly will produce substantial benefits for all involved. As one Morgan banker put it, "Everybody gives up something, and everybody gets something."

Heinemann Says:

Mexico must not fritter away the time that it will buy under the Morgan plan. Inflation must be controlled. Capital flight must end.

Mexico will improve its cash flow and may save up to $18 billion in interest payments over the next 20 years. However, the country will lose the value of the compounded return that it otherwise could have earned on the $2 billion that it will have to invest in zero coupon U.S. Treasuries. Indigenous investment in productive facilities would normally produce a far higher return than Mexico must pay on its bank debt.

The major banks will be able to put a limit on their losses on Third World loans. Secretary of the Treasury James A. Baker 3d, whose original plan to solve the debt crisis was moribund shortly after it was announced three years ago, can refurbish his reputation as a forceful and innovative financial statesman.

What will *not* change, however, are the underlying economic realities. The heavily indebted nations of the Third World desperately need an infusion of real capital resources to enhance their development and raise living standards.

Instead, capital is now flowing from the developing countries in the South, which are generally very poor, to the industrial countries in the North, which are generally very rich. The Morgan scheme does not address this issue. Under some circumstances (say, very high inflation in the United States), the plan could make the problem worse.

It makes no sense for the U.S. Treasury to extend credit (directly or indirectly) to other nations. The United States is itself the largest debtor country — borrowing more than $3 billion per week just to pay for its current imports. The last thing Mr. Baker wants to do is to lend money to the lesser-developed countries (no matter how deserving the case) only to turn around and borrow still more from Japan.

In fairness, the Morgan scheme does not involve an extension of credit by the United States. In the short run, the flow of funds will be to Washington, not away from it. Down the road, however, the door may have been open for demands that the Treasury back Third World credits.

Overview: Page 5 ➡

Mr. Heinemann is chief economist for Moseley Securities Corp., New York.

Public Confidence Rises in US Banking System

Continued from Page 1

The national survey of selected 1,000 consumers at random and has a margin of error of plus or minus three percentage points.

Overall, 86% of those surveyed said they have either "some" or "a great deal" of confidence in the safety and security of the banking system. That is almost identical to the combined confidence level expressed in previous surveys.

The relative calm within the banking industry in the aftermath of the crash and publicity about federal deposit insurance contributed to the public's faith in the system, analysts said in interviews. Those conditions contrast with the environment of the previous survey, when only a third expressed a great deal of confidence in the banking system. At that time, there was negative publicity about foreign loan writeoffs, farm bank problems, and thrift industry woes.

The latest survey also shows a surge in confidence in the banking system among affluent Americans. Of those with annual household incomes of $50,000 or more, 54% said they have a great deal of confidence in the system, up from 35% in the previous survey.

Financial industry observers said that upper-income Americans are more likely than the general public to follow current affairs and to know the distinctions between the problems of banks and the problems of other financial services firms. But observers also said they doubted a high level of confidence in the system would cause affluent Americans to use more banking products.

When asked if banks should be allowed to be involved in the securities business — without specifying the activities — 39% said yes, 41% said no, and 20% said they weren't sure. This was the first time the question was posed to consumers in an *American Banker* survey.

Similar reactions were recorded to a more general question about expanded bank powers in the spring survey. That question asked whether banks should be permitted to expand into financial services areas where they have been prohibited, such as insurance sales and real estate sales. Last spring, 41% said banks should be permitted into these fields.

The new survey may indicate slightly more uncertainty toward bank expansion. In the most recent poll, 37% said banks should be allowed this expansion. Also, 19% said they were uncertain whether banks should be allowed to offer new services such as insurance and real estate, compared with 10% in the spring.

More Uncertainty Over New Powers

Q: Should banks be permitted to offer financial services that they have not been permitted to offer in the past, such as selling insurance and real estate?

	May-June '87	Nov.-Dec. '87
Yes	41%	37%
No	49	45
Unsure	10	19

Total exceeds 100% due to rounding
Source: American Banker survey

There appears to be little distinction among various income groups over whether banks should be permitted to expand into insurance sales, real estate sales, and other new financial services. But upper-income consumers appear less eager for deregulation than they were before the stock market troubles.

In the most recent report, 37% of the 160 upper-income Americans surveyed said banks should be allowed to expand into these fields. Last spring, 47% of the 183 respondents from the $50,000-plus households said banks should be permitted into these fields.

Observers warned in interviews that findings about expanded banking powers are difficult to interpret, in part because the typical consumer has not given much thought to the complex issue.

"The comfortable position for the average American — when you're talking about new business or new powers or a change in the way they might have to do their own business — is to oppose change," said Justin L. Moran, a banking consultant in Ann Arbor, Mich. "With a question like this over the phone, where someone has 10 or 15 seconds to formulate a response, you're always going to get what I call a safe response. A safe response is, don't rock the boat, therefore, oppose it."

But others say the survey results may show a basic conservatism in the country regarding banks and bank expansion into new areas, especially after the stock market crisis.

"This could indicate a feeling that banks aren't going to be able to do any better" than the stockbrokers and others who had failed to warn the public of the crash and failed to select better investments, added Irving Leveson, senior vice president and research director for Hudson Strategy Group business consultants in New York, a subsidiary of Marsh & McLennan, an insurance concern.

Banks and Thrift Considered Safer

The recent survey shows that 24% of the public considers banks and thrifts to be better places to keep their money than before the stock market debacle. More than half said they had not changed their opinion, and 10% said they did not know if they had changed their minds. Another 10% said banks and thrifts were a worse place to do business since the stock market decline.

Financial industry observers said the October crash and the persistent volatility may have sensitized more consumers to the idea that principal is protected in bank or thrift deposits, but not in stock market investments.

"I think that 24% [those who consider banks and thrifts a more favorable place for their money] will continue to grow as market volatility continues and as uncertainties in the economic outlook exist," said Charles H. Pistor Jr., chairman of RepublicBank Dallas and president of the American Bankers Association.

He adds that while the survey may show only small numbers of investors taking money out of the stock market, large numbers of consumers will deposit money in banks and thrifts that otherwise might go into a variety of investments. "I can't look at the dollars downstairs and know where they're coming from," he said, "but I know there's a bunch more of them." ■

Bank Call Notice

CONSOLIDATED REPORT OF CONDITION OF

IBJ SCHRODER BANK & TRUST COMPANY

of New York, New York

And Foreign and Domestic Subsidiaries,

a member of the Federal Reserve System, at the close of business September 30, 1987, published in accordance with a call made by the State Banking Authority and by the Federal Reserve Bank of this district pursuant to the provisions of the Federal Reserve Act.

ASSETS	Dollar Amounts in Thousands
Cash and balances due from depository institutions:	
Noninterest-bearing balances and currency and coin	$ 29,066
Interest-bearing balances	300,760
Securities	162,200
Federal funds sold and securities purchased under agreements to resell in domestic offices of the bank	1,829,231
Loans and lease financing receivables:	
Loans and leases, net of unearned income, and reserve 1,258,134	
LESS: Allowance for loan and lease losses 74,178	
Loans and leases, net of unearned income, and reserve	1,183,956
Assets held in trading accounts	159,602
Premises and fixed assets	8,633
Other real estate owned	137
Customers' liability to this bank on acceptances outstanding	26,559
Intangible assets	133,719
Other assets	500,710
TOTAL ASSETS	$4,334,573
LIABILITIES	
Deposits:	
In domestic offices	$ 799,217
Noninterest-bearing 232,781	
Interest-bearing 566,436	
In foreign offices, Edge and Agreement subsidiaries, and IBFs	557,200
Noninterest-bearing 4,601	
Interest-bearing 552,599	
Federal funds purchased and securities sold under agreements to repurchase in domestic offices of the bank	939,067
Demand notes issued to the U.S. Treasury	15,000
Other borrowed money	374,203
Bank's liability on acceptances executed and outstanding	26,559
Other liabilities	1,321,865
TOTAL LIABILITIES	4,033,111
EQUITY CAPITAL	
Common stock	40,796
Surplus	278,520
Undivided profits and capital reserves	(17,854)
TOTAL EQUITY CAPITAL	301,462
TOTAL LIABILITIES AND EQUITY CAPITAL	$4,334,573

I, Alastair Merrick, Controller of the above-named bank do hereby declare that this Report of Condition has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and the State Banking Authority and is true to the best of my knowledge and belief.

ALASTAIR G.C. MERRICK

We, the undersigned directors, attest to the correctness of this Report of Condition and declare that it has been examined by us and to the best of our knowledge and belief has been prepared in conformance with the instructions issued by the Board of Governors of the Federal Reserve System and the State Banking Authority and is true and correct.

PETER RONA
COLIN A. BROWNING
JOHN B. FORD
Directors

Settlements Bank Reports Drop in Nonmember Loans

Continued from Page 15

In current-dollar terms, member banks' claims on OPEC countries increased by $500 million in the first six months, but if the figures are adjusted to the falling dollar, there was in fact a decline of $1.4 billion. The same pattern was evident in lending to African and non-OPEC Middle Eastern countries — although the statistics showed a rise in claims of $400 million in current dollars; in fact there was zero growth once the dollar had been adjusted downward.

In Latin America, Argentina and Mexico borrowed more $800 million and $100 million respectively. There was a $1 billion decline in claims against Brazil, but this was offset by a sharp rise in short-term claims on that country as a result of nonpayment of interest. ■

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